

Regional Commentary — February 17, 2021

Arctic Blast Hits Central U.S.

Summary

- A polar vortex unleashed heavy snowfall, ice and record-low temperatures across most of the central U.S.
- Several southern states have seen temperatures drop to close to zero for the first time since the late 1980s.
- Energy demand has surged, putting tremendous strain on the energy grid in the most severely affected areas.
- The cold weather has hit Texas especially hard. Grid failures have been most severe throughout the state, leading President Biden to declare a state of emergency earlier this week.
- Texas' economy appears to be essentially shut down. Businesses are shuttered, industrial production is idled, agriculture operations are halted, oil wells are shut in and consumers are staying indoors.
- That noted, the state's economic recovery is unlikely to be meaningfully knocked off course by the storm, even if there are temporary disruptions.

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Harsh Winter Weather Descends on the U.S.

February is the shortest month of the year, but sometimes it feels like the longest. Starting in the second week of the month, a polar vortex unleashed heavy snowfall, ice and record-low temperatures across most of the central U.S. According to the National Weather Service, over 150 million residents were under a winter weather advisory as of Monday. While harsh winter weather is a fairly normal occurrence in the Midwest and Mountain regions, a number of southern states have seen temperatures drop to close to zero for the first time since the late 1980s. What's more, the plunge in temperatures has led to an unexpected surge in demand for electricity and heating fuels like oil, natural gas and propane. Unfortunately, much of the southwestern region's energy grid, which has shifted dramatically since the last time it faced a winter weather test of this magnitude, has now come under tremendous strain alongside spiking energy demand. Frozen instruments at gas, coal and nuclear plants have complicated the matter, as the region's energy supplies have dwindled amid a collapse in generating capacity. The shortfall in supply has pushed oil and natural gas prices to their highest levels in months and also has forced regulators to reduce gas supplies for commercial and industrial uses to ensure heating for households and critical customers, such as power plants and hospitals.

Texas Feels the Brunt of the Impact

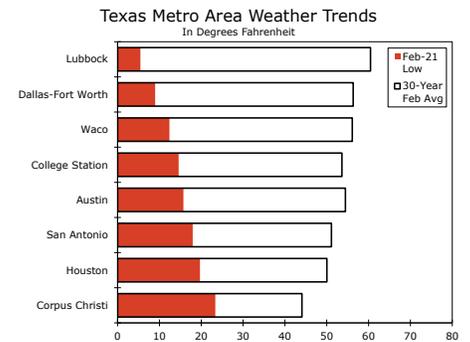
While several southern states have been subject to rolling power outages to conserve energy during the arctic blast, the cold weather appears to be hitting Texas especially hard. Grid failures have been most severe throughout the state, leading President Biden to declare a state of emergency earlier this week. The National Guard was also deployed in the state to help transport residents to warming shelters. On top of this, the freezing weather has disrupted the water supply in some areas of the state, leaving some households without running water. In addition to the immeasurable human suffering many Texans are currently experiencing, the cold spell and subsequent power outages may have negative public health consequences, as COVID vaccine appointments and deliveries of new vaccines have been delayed. Moreover, with much of the state essentially shut down, the Texas economy may take a temporary hit as businesses are shuttered, industrial production is idled, agriculture operations are halted, oil wells are shut in and consumers are staying indoors.

Texas Economy Will Take the Storm in Stride

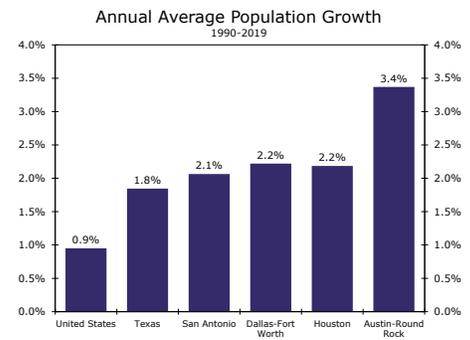
Areas brought to a standstill this week include some of the nation's largest and most rapidly growing economies. Dallas-Fort Worth and Houston are the nation's fourth- and fifth-largest metros, respectively. Robust population growth over the past 30 years may explain why the state's energy infrastructure has faltered. The last time the state has experienced prolonged winter weather was in the late 1980s, and since then, Texas has added close to 12 million residents. Overall, the state population has expanded at a 1.8% average annual rate between 1990 and 2019. The state's four largest metro areas have grown at an even faster rate.

Most metro areas punch well above their weight in terms of overall economic growth. The Dallas, Fort Worth, Austin and San Antonio metro areas account for 3.8% of U.S. GDP and were responsible for 5.2% of U.S. GDP *growth* between 2015 and 2019. Economic output in the greater Houston metro area, which has lagged in recent years due to subdued oil and gas activity, makes up about 2.8% of national GDP, with Harris County alone contributing roughly 2.2%.

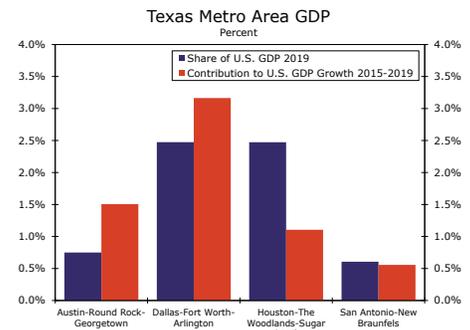
That being said, the state's economic recovery is unlikely to be meaningfully knocked off course by the storm, even if there are temporary disruptions caused by the weather. The Texas economy has held up better compared to other states amid the recent spike in COVID case counts. Employers added 64,000 jobs in December, the eighth straight monthly gain. Furthermore, employers in the state have regained about 64% of the jobs lost during the lockdown months last spring, more than many of the other large states. Longer term, Texas will continue to benefit from the accelerated in-migration of businesses and residents from higher-cost coastal areas to Austin, Dallas and many other parts of the state. In the past few months, a wide array of major companies in industries



Source: Bloomberg LP and Wells Fargo Securities



Source: U.S. Census Bureau and Wells Fargo Securities



Source: U.S. Department of Commerce and Wells Fargo Securities

ranging from tech and finance to media have announced plans to move operations into the state. In short, the state has become a hot-bed of economic activity over the past few years, which will help the state's economy recover rapidly from the temporary economic disruptions caused by the freezing winter weather.

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